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**RBC MORTGAGE CO. TO PAY U.S. NEARLY \$11 MILLION TO SETTLE CLAIMS
OVER FHA-INSURED MORTGAGES ISSUED BY FORMER ROCKFORD OFFICE**

CHICAGO – A Canadian bank holding company that purchased a former mortgage brokerage company in Rockford, Ill., where several employees were convicted of fraudulent mortgage practices, will pay the United States just under \$11 million to settle civil allegations that the lender submitted false information to the U.S. Department of Housing and Urban Development, Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois, announced today.

The settlement was reached with RBC Mortgage Company, a subsidiary of the Royal Bank of Canada. RBC Mortgage, formerly known as Prism Mortgage, had lending offices throughout the United States, including Rockford, but it has not originated a mortgage loan since September 2005.

Following a parallel criminal investigation that resulted in federal charges against three RBC Mortgage loan officers and 22 other defendants, all of whom were convicted, the Government alleged that RBC knew that 219 loans it made in the Rockford and Freeport, Ill., areas between February 2001 and April 2004 were based on false or fraudulent statements regarding the borrower's credit, employment, or source of equity. Each of these loans resulted in foreclosure, causing a financial loss to the government. RBC Mortgage agreed to pay approximately \$10.7 million within 14 days to

settle these claims, which the Government asserted under the federal False Claims Act.

At the same time, RBC Mortgage agreed to pay an additional \$264,000 to settle other Government claims stemming from a HUD audit of loans that the lender allegedly improperly certified as being current. The entire \$10,979,084 settlement was reached without litigation.

The Royal Bank of Canada cooperated with the Government's investigation of RBC Mortgage, which is winding down. RBC Mortgage denies liability but agreed to the settlement to avoid the costs and uncertainties of litigation

"We are pleased that this settlement was reached without a lengthy court battle. Mortgage lenders should know that they must maintain the integrity of the lending process so that federally-insured mortgages will be available to worthy borrowers and not based on fraud and deceit," Mr. Fitzgerald said.

According to the agreement, RBC Mortgage had "direct endorsement" authority to underwrite HUD-insured mortgage loans and submit them to HUD for insurance endorsement. Direct endorsement is a mechanism that allows pre-approved lenders to extend mortgage loans to low- or moderate-income borrowers while protecting lenders against loss in cases of default. The program helps low- and moderate-income families become homeowners by lowering some of the costs associated with mortgage loans. It also protects lenders, who are encouraged to make loans to borrowers who might not be able to meet conventional underwriting requirements but are otherwise creditworthy.

To qualify for a loan insured by the Federal Housing Administration, borrowers must have a valid social security number and generally good credit. In addition, borrowers must establish that they have sufficient gross income to meet the monthly mortgage payments. To evaluate this

requirement, either HUD or the Direct Endorsement lender, sends an employment verification form to the prospective borrower's employer. The employer is asked to verify the borrower's hourly wages, average hours worked per week, year-to-date total wages and total wages for the preceding two years.

FHA-insured loans also require that borrowers must invest at least three percent equity in the home being purchased. The down payment can be supplied by a family member as a gift or may be supplied by a HUD-qualified gift program. HUD rules, however, prohibit an interested party, such as sellers, builders and lenders from supplying the gifts.

The Government claimed that RBC Mortgage, using its direct endorsement authority in the FHA insurance program, certified that the 219 covered mortgage loans met FHA's lending requirements based on false or fraudulent statements, including false verifications of employment and income. After all of the loans resulted in foreclosures, RBC Mortgage allegedly submitted false mortgage insurance claims to HUD, which the agency paid.

Under the False Claims Act, violators may be sued and liable for triple the amount of actual damages and civil penalties between \$5,500 and \$11,000 for each violation.

The Government was represented by Assistant U.S. Attorney Kurt N. Lindland. HUD's Office of Inspector General assisted in the investigation.

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